

*Recapitalization grants* are additional grant funds awarded to increase the capital base of an RLF.

*RLF capital* includes the funds which capitalized the RLF plus such earnings and fees generated by RLF activities as may be added to the RLF capital base to be used for lending. The original sources of capital for EDA RLFs are normally comprised of EDA grant funds and local cash matching share.

*RLF income* means interest earned on outstanding loan principal, interest earned on accounts holding RLF funds not needed for immediate lending, all loan fees and loan-related charges received from RLF borrowers, and other income generated from RLF operations. The RLF recipient may use RLF income only to capitalize the RLF and/or to cover eligible and reasonable costs necessary to administer the RLF, unless otherwise provided for in the grant agreement or approved in writing by EDA. RLF income excludes principal repayments.

*Secondary market* includes those entities that purchase an interest in a loan from an original lender.

*Securitization* refers to the technique of securing an investment of new capital with the stream of income generated by one or more (usually a large group of) existing loans. EDA broadly defines securitization transactions to include techniques such as the sale of loans, pledging the future income stream of a loan, and similar activities, to access investor capital to increase available funds for lending.

#### § 308.9 Revolving Loan Fund Plan.

All RLF recipients must manage RLFs in accordance with an RLF Plan (Plan) as described in this part. For all RLF recipients, the Plan must be submitted to and approved by EDA prior to the grant award. For RLF recipients other than states, the RLF Plan must have been approved by resolution of the organizations' governing board and such resolution must be submitted to EDA along with the Plan prior to the grant award; with EDA's approval, political subdivisions of states may be exempted from the resolution requirement.

(a) *Format and content.* (1) The title page of the Plan should show the RLF

recipient organization's name and the date the Plan was adopted.

(2) Part I of the Plan, titled Revolving Loan Fund Strategy, summarizes the area CEDS and business development objectives, and describes the RLF's financing strategy, policy and portfolio standards. Organization of the material and the level of detail provided in the subsections of Part I may be varied to improve the narrative flow, provided the substantive content is adequately covered.

(3) Part II of the Plan, titled Operational Procedures, serves as the internal operating manual for the RLF.

(b) *Evaluation of Plans.* EDA will use the following criteria in evaluating Plans:

(1) The Plan must flow from and be consistent with the EDA-approved CEDS for the area.

(2) The Plan must be an internally consistent, coherent statement of the strategic purpose of the particular RLF and the various considerations influencing the selection of its financing strategy, policies, and loan selection criteria encompassing:

(i) A financing strategy that demonstrates a knowledgeable analysis of the local capital market and the financing needs of the targeted businesses; and

(ii) Financing policies and portfolio standards that are consistent with EDA policies and requirements.

(3) The strategic objectives defined must be sufficiently meaningful, though not necessarily quantified, so that progress toward them can be assessed over time.

(4) The administrative procedures for operating the RLF must be consistent with generally accepted prudent lending practices for public lending institutions.

[65 FR 2532, Jan. 18, 2000, as amended at 65 FR 71025, Nov. 28, 2000]

#### § 308.10 Pre-loan requirements.

(a) RLF recipients must adopt procedures to review the impacts of prospective loan proposals on the physical environment. The Plan must provide for the disapproval of any loan project that adversely (without mitigation) impacts flood plains, wetlands, significant historic or cultural properties,